

Message Text

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ACTION SS-25

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C O N F I D E N T I A L ROME 9335

EXDIS

E.O. 11652: GDS
TAGS: ENRG
SUBJECT: IEA: JUNE 30 GOVERNING BOARD

REF: (A) BURSSLES 5836; (B) TOKYO 8550

1. PLEASE PASS FOLLOWING MESSAGE TO DAVIGNON FROM ASSISTANT
SECRETARY ENDERS IN ADVANCE OF DAVIGNON'S DEPARTURE FOR PARIS.

2. WE WOULD NOT VIEW AGREEMENT AT THIS MEETING ON A RANGE
WITHIN WHICH MSP WILL EVENTUALLY BE FIXED AS IN ITSELF THE
ESSENTIAL FACTOR IS THAT WE ESTABLISH OF A SERIOUS
LONG-TERM PROGRAM. IN ORDER TO DO THIS, IT
WILL PROBABLY BE NECESSARY TO IDENTIFY AN ILLUSTRATIVE BUT
LIMITING RANGE OF PRICE TO PERMIT DELEGATIONS TO CALCULATE
OVERALL COSTS AND BENEFITS OF LONG-TERM PROGRAM AS A WHOLE.
AT THIS POINT, IT WOULD NOT SEEM NECESSARY THAT ALL DELEGATIONS
AGREE ON BOTH ENDS OF THE RANGE; RATHER WE WOULD ALL AGREE IN
EFFECT TO FOREGO NUMBERS EITHER HIGHER OR LOWER.

3. WE DO NOT AGREE THAT MSP LEVEL EVENTUALLY FIXED WITHIN
THIS ILLUSTRATIVE RANGE WILL HAVE TO BE SO LOW THAT IT WILL
HAVE LITTLE OR NO ECONOMIC IMPACT. CLEARLY THE LEVEL WILL BE
SUBSTANTIALLY BELOW CURRENT MARKET PRICES, BUT IT MUST BE
HIGH ENOUGH SO THAT IT REPRESENTS A SUBSTANTIAL REDUCTION OF
DOWNSIDE RISK FOR IEA INVESTORS. THE SYSTEM MUST BE SEEN AS
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A SERIOUS UNDERTAKING; OTHERWISE IT WILL HAVE NO CREDIBILITY

EITHER TO OUR OWN INVESTORS NOR TO OPEC AND THERE WOULD BE NO POINT IN OUR ESTABLISHING IT. ON TENTATIVE BASIS, WE WOULD SEE A RANGE OF \$5.00 TO \$7.00 FOB AS ONE ON WHICH OUR EFFORTS COULD NOW PROCEED.

4. I AM SOMEWHAT CONFUSED BY YOUR INDICATION THAT THERE IS NO NEED TO AGREE ON COMMON MECHANISMS. THE ISSUE OF THE REGIME FOR MECHANISMS TO MAINTAIN A MSP IS ONE OF SEVERAL ISSUES PUT FORWARD BY THE SLT, INCLUDING THE DEFINITIONS OF OIL, IMPORTED OIL, ET. ALL OF THESE MUST NOW BE NEGOTIATED AT GOVERNING BOARD LEVEL. THE ESTABLISHMENT OF A SINGLE, COMMON MECHANISM TO MAINTAIN THE MSP IS ONE OF THE THREE OPTIONS PUT FORWARD BY THE SLT. IT WAS SUPPORTED BY ONLY A FEW DELEGATIONS IN THE SLT, NOT INCLUDING THE U.S. AND IS PROBABLY NOT NEGOTIABLE. HOWEVER, WE DO THINK IT ESSENTIAL THAT OVERALL MSP SYSTEM INCLUDE PROVISION THAT COUNTRIES BE REQUIRED TO CHOOSE FROM AN AGREED LIST IN ADOPTING MECHANISMS (TARIFFS, VARIABLE LEVIES, ET.) WITH WHICH THEY WOULD MAINTAIN MSP. ALTERNATIVE WOULD BE TO LEAVE CHOICE OF MECHANISMS COMPLETELY OPEN. THIS, IN OUR VIEW, WOULD NOT OFFER ADEQUATE ASSURANCE TO EITHER IEA INVESTORS OR OTHER IEA COUNTRIES THAT WE WOULD EACH EMPLOY MECHANISMS WHICH WOULD (1) EFFECTIVELY MAINTAIN MSP AND (2) NOT RESULT IN ADVERSE SIDE-EFFECTS ON TRADE, COMPETITION, ETC. THUS, WHILE WE AGREE ON NEED FOR FLEXIBLE APPROACH, WE ALSO BELIEVE THIS QUESTION IS ESSENTIAL TO CREDIBILITY AND SERIOUSNESS OF THE MSP SYSTEM AND OVERALL LONG-TERM PROGRAM.

5. FINALLY, I AGREE COMPLETELY ON NEED TO BEAR IN MIND THE OTHER IMPORTANT ELEMENTS OF THE LONG-TERM PROGRAM. AS I INDICATED IN MY LAST MESSAGE TO YOU, WE VIEW THE MSP AS AN ESSENTIAL, ALTHOUGH NOT MOST IMPORTANT, ELEMENT OF OVERALL PROGRAM. WE SHOULD TRY TO ENRICH SLT DRAFT IN CERTAIN OF THESE OTHER AREAS, PARTICULARLY AS CONCERNS R&D WHERE WE MAY NOT BE ABLE TO DEFINE THE FINAL FORM OF OUR COOPERATION UNTIL THE MEETING OF IEA R&D CHIEFS THIS AUTUMN. IN MEANTIME, WE MUST PROCEED ON AD REFERENDUM BASIS TO AGREE ON OTHER ELEMENTS, FIXING A PROCESS WHEREBY ALL ELEMENTS, INCLUDING THE ACTUAL ESTABLISHMENT OF THE LEVEL OF THE MSP, CONFIDENTIAL

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LEVEL WOULD COME TOGETHER IN A FORMALLY AGREED PACKAGE LATER THIS YEAR.VOLPE

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